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C O N F I D E N T I A L PRAGUE 001549

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STATE FOR EUR/NCE, EUR/ERA, EB/ESC
DOE FOR HARBERT AND TTILLER
COMMERCE FOR 4232/ITA/MAC/EUR MIKE ROGERS
NSC FOR TRACY MCKIBBEN

E.O. 12958: DECL: 12/21/2016
TAGS: [ENRG](#) [ECON](#) [ETRD](#) [PREL](#) [EZ](#)
SUBJECT: CZECH REPUBLIC: RUSSIAN GAS SUPPLY CONTRACT
EXTENDED TO 2035

REF: PRAGUE 1402

Classified By: Pol-Econ Counselor Mike Dodman
for Reasons 1.4 B&D

¶1. (SBU) The German-owned RWE Transgas issued a press release on December 21 announcing that it has renewed its contract with Gazprom Export Ltd. to supply the Czech Republic with natural gas until 2035. The contract is for 9 billion cubic meters per year. As for the price, Spokesman for RWE Transgas Czech Republic Martin Chalupsky told the press that "the price is determined by a formula which reacts to actual movement in the world market." In other words, RWE will not divulge that information.

¶2. (C) MFA Ambassador-at-Large for Energy Security Vaclav Bartuska told econoff December 22 that the GOCR is pleased that the gas contracted has been renewed, but remains concerned about the unknown details of the contract. For example, the contract reportedly includes an asset swap provision but no one knows which assets are involved. (NOTE: Since RWE's only assets in the Czech Republic are its gas pipelines, we speculate that the swap involves those pipelines and Russian gas fields. END NOTE) The GOCR has spent much time and energy trying to persuade the Germans that such an asset swap would be disadvantageous to the Czech Republic from an energy security perspective. Ambassador Bartuska traveled to Berlin earlier this week in this endeavor, but admitted he was not/not successful. He also underscored what he told econoff in reftel that the GOCR continues to believe a pan-European discussion with the Russians is better than individual countries with limited leverage trying to persuade the Russians.

¶3. (C) As reported in reftel, the Czech gas sector is 100% privatized, with approximately 70% of natural gas coming from Russia and 30% from Norway. The government does not have any strategic influence on how RWE conducts business, nor does it have any influence over the terms of its long-term contracts. However, the fact that the Czech Republic serves as a transit country for Russian gas supplies to Germany means it enjoys important protection from possible supply disruptions as those experienced by countries with less-advantageous geography.
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